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Chief Counsel & Director of Legal Services

July 12, 2018

VIA ELECTRONIC FILING

Jocelyn G. Boyd, Esquire
 Chief Clerk & Administrator
 Public Service Commission of South Carolina
 101 Executive Center Drive, Suite 100
 Columbia, South Carolina 29210

Re: Application of Duke Energy Carolinas, LLC and Duke Energy Progress, LLC for an Accounting Order to Defer Certain Costs Related to Grid Reliability, Resiliency and Modernization

Docket No: 2018-206-E

Dear Ms. Boyd:

By this letter, the South Carolina Office of Regulatory Staff ("ORS") hereby notifies the Public Service Commission of South Carolina ("Commission") that ORS has reviewed the Petition of Duke Energy Progress, LLC and Duke Energy Carolinas, LLC ("DEC," "DEP" or "the Companies") requesting approval for an accounting order to defer certain capital and operating expenses pursuant to S.C. Code §58-27-1540 and S.C. Code Reg. 103-825.

The Companies requests an accounting order for regulatory and financial accounting purposes authorizing the Companies to defer in a regulatory asset certain costs related to the Power/Forward initiative. These costs include incremental operations and maintenance, depreciation, property tax and carrying costs at the Companies' weighted average cost of capital that have been or are being incurred by the Companies in 2018 and 2019. The Power/Forward initiative includes the following programs:

- 1) Targeted undergrounding;
- 2) Distribution hardening and resiliency;
- 3) Transmission improvements;

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- 4) Self-optimizing grid;
- 5) Advanced metering infrastructure;
- 6) Communication network upgrades; and
- 7) Advanced enterprise systems.

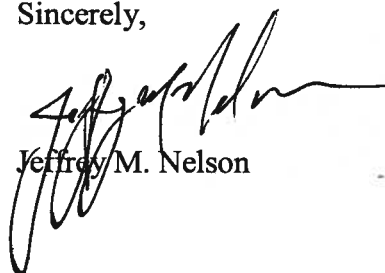
The Companies estimate the deferred costs related to Power/Forward will total approximately \$17 million for DEC and \$7 million for DEP until the rate effective dates for each Companies' general rate case. The Companies' accounting records of the deferred costs will be based on actual costs not estimates.

The Companies state in the request that without the accounting treatment the costs of the Power/Forward programs will continue to negatively impact the Companies' financials and the effects could impair financial stability and ability to attract capital. The Companies identify that the projects included in Power/Forward would not qualify for Construction Work in Progress or Allowance for Funds Used During Construction which prohibits the Companies from recovering the time value of money on their investments. The Companies indicate the accounting order treatment will assure investor confidence. However, the Companies did not quantify the amount of earnings erosion that would be experienced if the request was not approved.

In a recent ruling, the North Carolina Utilities Commission ("NCUC") ruled DEC did not demonstrate that Power/Forward costs qualify for deferral accounting treatment in North Carolina.¹ Due to the complexities of the Power/Forward initiative and accounting treatment requested, ORS requests the Commission schedule a hearing to determine if an accounting order is appropriate in South Carolina for costs associated with Power/Forward.

If you have any questions, please do not hesitate to contact me.

Sincerely,



Jeffrey M. Nelson

cc: Joseph Melchers, Esquire (via E-mail)

¹ Docket No. E-7, Sub 1146 In the Matter of Application of Duke Energy Carolinas, LLC for Adjustment of Rates and Charges Applicable to Electric Utility Service in North Carolina, pgs. 19 and 148